

State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

DEPARTMENT OF
PUBLIC SERVICE REGULATION

Financial-Compliance Audit Report
for the Two Fiscal Years Ended June 30, 1986

This report contains nine recommendations
for improvement of the department's operations.
The major items addressed in this report
include additional training for staff, proper
revenue recognition, and compliance with
state laws and regulations.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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SCOTT A. SEACAT
LEGISLATIVE AUDITOR

May 1987

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Public Service Regulation for the two fiscal years ended June 30, 1986. Included in the report are recommendations concerning additional training for staff, various accounting issues related to revenue accruals, revenue recognition, expenditure accruals, and coding of expenditure transactions, and several legal issues including approval of agency legal counsel and adoption of serviceable gas and electrical standards. The department's response to these recommendations is included on page 20 of the report.

We would like to thank the commissioners and their staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written in a cursive style.

Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

DEPARTMENT OF PUBLIC SERVICE REGULATION

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1986

Audit staff involved in the Department of Public Service Regulation audit included Don Davies, Brian Farmer, Wayne Kedish, Gerard Poore, Amy Vanica, and Lisa Warburton.

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ELECTED AND ADMINISTRATIVE OFFICIALS

PUBLIC SERVICE COMMISSION

	<u>Term Expires</u>
Clyde Jarvis, Chairman	January 1991
Howard Ellis, Vice-Chairman	January 1989
John Driscoll	January 1989
Thomas Monahan	January 1989
Danny Oberg	January 1991

ADMINISTRATION

Madeline L. Cottrill	Administrator Centralized Services Division
Robert A. Nelson	Administrator Legal Division
Wayne Budt	Administrator Transportation Division
Dan Elliott	Administrator Utility Division

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

<u>Recommendation #1</u>	<u>Page</u>
The department obtain additional training for accounting personnel regarding state accounting policy and procedures.	3

Agency Response: Concur. See page 21.

<u>Recommendation #2</u>	
The department accrue revenues according to state accounting policy.	4

Agency Response: Concur. See page 21.

<u>Recommendation #3</u>	
The department properly account for grant expenditures in the Special Revenue Fund.	5

Agency Response: Concur. See page 21.

<u>Recommendation #4</u>	
The department accrue only valid obligations in compliance with state policy.	6

Agency Response: Concur. See page 21.

<u>Recommendation #5</u>	
The department properly record equipment purchases in its accounting records in accordance with state policy.	7

Agency Response: Concur. See page 22.

<u>Recommendation #6</u>	
The department adopt a policy to ensure that all legal counsel representing the department are approved by the Attorney General as required by law.	8

Agency Response: Concur. See page 22.

SUMMARY OF RECOMMENDATION (Continued)

	<u>Page</u>
<u>Recommendation #7</u>	
The department establish natural gas and electrical standards in the ARMS as required by state law.	9
Agency Response: Concur. See page 22.	
 <u>Recommendation #8</u>	
The department enforce adopted administrative rules according to the effective date included in the rule.	9
Agency Response: Concur. See page 22.	
 <u>Recommendation #9</u>	
The department:	
A. Prepare an annual report detailing investigation and enforcement of railroad safety laws as required by state law.	10
Agency Response: Concur. See page 23.	
B. If necessary, seek legislation to abolish the requirement for an annual report.	10
Agency Response: Concur. See page 23.	

INTRODUCTION

We performed a financial-compliance audit of the Department of Public Service Regulation (PSR) for the two fiscal years ending June 30, 1986. The objectives of the audit were to:

- 1) determine if the department's financial schedules present fairly the results of operations for the two fiscal years ending June 30, 1986;
- 2) determine department compliance with applicable laws and regulations;
- 3) if necessary, make recommendations for improvement in the administrative and accounting controls of the department; and
- 4) determine the implementation status of prior audit recommendations.

This report contains nine recommendations to the department. These recommendations address areas in which the department can improve management, financial reporting, and compliance with laws and regulations. Other areas of concern not having a significant effect on the successful operations of the department are not specifically addressed in this report but have been communicated to management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

BACKGROUND

The Department of Public Service Regulation was created by the Executive Reorganization Act of 1971 and operates under the direction of the Public Service Commission. The commission consists of five voting members who are elected on a regional basis and serve a term of four years. After each general election, one of the commissioners is elected chairman.

The department is responsible for the regulation and safety inspection of public utilities, motor carriers, railroads, and pipelines

within the state. The department's responsibility is to assure the consuming public safe, adequate, and economical utility and transportation service at just and reasonable rates.

The department is divided into four divisions. The Legal Division advises the commission on matters requiring a legal interpretation or opinion. The Transportation Division exercises general supervisory control over the activities of motor carriers and railroads. The Utility Division exercises general control over public utilities, including rate determination and safety standards. The Centralized Services Division performs the administrative support functions of the department.

The department employed approximately 46 full-time equivalent personnel in fiscal years 1984-85 and 1985-86.

PRIOR AUDIT RECOMMENDATIONS

The previous department audit for the two fiscal years ended June 30, 1984, contained nine recommendations which are still applicable. The department implemented four of the recommendations, partially implemented two recommendations, and did not implement three recommendations. Of the three recommendations not implemented, one related to the proper accrual of grant expenditures and revenues (page 3), one related to properly recording equipment purchases (page 6), and one related to the establishment of natural gas and electrical standards in the ARMs (page 8). The recommendations partially implemented related to accounting issues and are included in the report or have been discussed with management.

ACCOUNTING ISSUES

While performing tests in various areas at the department, we noted a number of accounting issues involving improper accruals, coding errors, and revenue recognition. These issues are discussed in the following report sections.

Training

The issues discussed in the following four sections were partially the result of a lack of understanding of the proper accounting procedures by department personnel. In order to properly present activity in the agency's financial records, revenues and expenditures must be properly recorded. It is important for the agency to follow state accounting policy when recording financial activity because these policies ensure consistent and accurate reporting of financial information. Agency personnel should become more familiar with the state accounting policies and procedures. Agency officials should consider additional training for accounting personnel to enhance their understanding of state accounting policy and procedures.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OBTAIN ADDITIONAL TRAINING FOR ACCOUNTING PERSONNEL REGARDING STATE ACCOUNTING POLICY AND PROCEDURES.

Revenue Recognition

The department did not follow state policy regarding the recording of revenue at the end of fiscal years 1984-85 and 1985-86. The error discussed below resulted in the misstatement of revenues in various department funds at fiscal year-end 1984-85 and 1985-86.

The department operates several programs for which it pays the program expenses and then bills and collects full or partial reimbursement from federal and state agencies and utility companies. The department recorded revenues for these programs when cash was received.

State policy requires revenues earned on reimbursement projects such as these be recorded when the program expenditures are made. Following this policy ensures matching the revenues and expenditures for reimbursement type projects in the same accounting period. To properly reflect the activity for these programs, the department should

record a receivable and recognize revenue for all uncollected reimbursable expenditures incurred prior to fiscal year-end.

We discussed accrual procedures with agency personnel and found they did not fully understand the accrual process. The department records revenue when the reimbursement is received. Department officials did not believe it was necessary to accrue revenues in the Special Revenue Fund because they had obtained an inter-entity loan. Officials also stated they were not aware an accrual was necessary in the General and Internal Service Funds for this instance.

These errors resulted in a \$20,618 understatement of revenue in the Special Revenue Fund for fiscal year 1985-86. Revenues were also understated in the Internal Service Fund in fiscal years 1984-85 and 1985-86 and in the General Fund in fiscal year 1985-86. Because these revenues are recorded with other revenues of a similar nature, it was not feasible to determine the exact amount of the misstatements in the General and Internal Service Funds; however, we do not believe the misstatements have a significant impact on the department's financial schedules.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT ACCRUE REVENUES ACCORDING TO STATE ACCOUNTING POLICY.

Improper Fund Classification

We determined the department incorrectly recorded expenditures in the General Fund during fiscal year 1984-85. The Motor Carrier Safety Program (MCSAP) is funded with 80 percent federal funds and 20 percent state funds. The department meets its matching requirements by paying the payroll costs of certain employees who work for MCSAP with General Fund money. Manual records are maintained to determine the total program expenditures, and the federal government is billed for 80 percent of the program costs. In fiscal year 1984-85 the department billed the federal granting agency for 80 percent of program expenditures and recorded the receipts in

the Federal Special Revenue Fund. Program expenditures equal to the 80 percent billed to and collected from the federal grantor agency should have been recorded in the department's Special Revenue Fund. This procedure would have properly matched the grant revenues and expenditures. Only a portion of the grant expenditures billed to the federal grantor was recorded as expenditures in the Special Revenue Fund.

Section 17-2-108, MCA, requires that agencies spend non-General Fund moneys prior to spending General Fund moneys whenever feasible. The department could have complied with this law and properly matched Special Revenue Fund revenues and expenditures by transferring expenditures of \$25,766 from the General Fund to the Special Revenue Fund. These errors understated expenditures in the Special Revenue Fund and overstated expenditures in the General Fund by \$25,766 in fiscal year 1984-85. Agency officials stated they believed they were properly accounting for the MCSAP program, noting they had received the maximum reimbursement from the federal government. The errors were corrected during fiscal year 1986-87.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT PROPERLY ACCOUNT FOR GRANT EXPENDITURES IN THE SPECIAL REVENUE FUND.

Invalid Accrual

At the end of fiscal year 1983-84, the department accrued expenditures of \$70,000 based on a service agreement with the Department of Administration, Information Services Division (ISD). The service agreement specified no services, and stated that the agreement would have to be amended to identify specific responsibilities of each party. The agreement further stated that it was subject to cancellation at any time. Included in the services to be provided under the agreement were "computer hardware, or other equipment necessary. . .". During fiscal year 1984-85, the department paid expenditures totaling \$69,071 based on this agreement. These

expenditures included \$7,493 to ISD for computer services and \$61,578 to various vendors for computer equipment.

State policy does not allow this type of accrual. The agreement with ISD was not an adequate basis for establishment of an accrual as it allowed for cancellation at any time and no specific services were discussed in the agreement. The agreement also included the purchase of equipment. At the time of the accrual no purchase orders had been issued and the department was under no obligation to purchase the equipment. In addition, the agreement was with ISD which does not sell data processing equipment.

The department circumvented the appropriation process by entering into a generic agreement in order to accrue expenditures and thereby extend appropriation authority to a future fiscal year. If it is not possible to identify the specific computer and systems development needs by fiscal year-end, the department should request appropriation authority to develop the needed system(s) in subsequent fiscal years.

Because the accrual was not valid, the expenditures have been recorded in the wrong fiscal year. Fiscal year 1983-84 expenditures are overstated and fiscal year 1984-85 expenditures are understated by \$61,578. Officials stated discussions with ISD led them to believe the agreement was proper and that this was a normal systems development contract.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT ACCRUE ONLY VALID OBLIGATIONS IN COMPLIANCE WITH STATE POLICY.

Coding of Expenditures

During fiscal year 1984-85, the department purchased data processing equipment totaling \$19,998. The purchases were charged against the accrual that was based on the service agreement with ISD discussed in the previous section. The department originally accrued

the expenditures as contracted services and failed to change them to equipment expense when the equipment was purchased.

In fiscal year 1985-86, the department purchased a \$9,888 memory board to enhance the capacity of one of its computers. This expenditure was recorded as data processing supplies. According to state accounting policy, this purchase should have been recorded as an equipment purchase. Section 2-1700.00 of the Montana Operations Manual (MOMs) states that "Additions, betterments, and extraordinary repairs and maintenance to property of \$200 or more should be a capital expenditure." Section 2-1700.30 of the MOMs defines a capital expenditure as "an expenditure intended to benefit future periods. . . that has the effect of increasing capacity, efficiency, span of life, or operating economy of an existing fixed asset." State policy requires that all capitalized equipment expenditures be recorded as equipment purchases.

These transactions resulted in the overstatement of operating expenditures and the understatement of equipment expenditures of \$19,998, and \$9,888 in fiscal years 1984-85 and 1985-86, respectively. Incorrect use of expenditure objects was addressed in a prior audit recommendation.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT PROPERLY RECORD EQUIPMENT PURCHASES IN ITS ACCOUNTING RECORDS IN ACCORDANCE WITH STATE POLICY.

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the department. We believe the agency could improve compliance with state law in several areas. These items include spending non-General Fund money first, discussed on page 5, and the issues discussed below.

Attorney General Approval of Legal Counsel

Section 69-14-132, MCA, requires the department obtain the Attorney General's approval before employing any legal counsel in relation to any railroad issues. Three of four attorneys employed by the department were not approved by the Attorney General as required by law. According to agency officials, only in-house attorneys are used for railroad issues. The officials thought the Attorney General's approval was automatic upon hiring and did not realize the attorneys had not been approved. Approval has now been received from the Attorney General's office. The department should adopt policies to ensure that all legal counsel (in-house or contracted) are approved by the Attorney General as required by law.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT ADOPT A POLICY TO ENSURE THAT ALL LEGAL COUNSEL REPRESENTING THE DEPARTMENT ARE APPROVED BY THE ATTORNEY GENERAL AS REQUIRED BY LAW.

Gas and Electrical Standards

During our previous audit we determined the department had not adopted natural gas and electrical standards as a part of the Administrative Rules of Montana (ARMS) as required by Title 2, chapter 4, part 3, MCA. We recommended these standards be adopted in the ARMS and the department concurred with the recommendation.

Officials stated that these standards have been adopted in the ARMS by reference to tariff agreements and it is not necessary to include them in the ARMS word for word.

The serviceable standards required by section 69-3-109, MCA, should be applied uniformly to all public utilities providing the same services. Tariff agreements apply specifically to individual utility companies. It is not appropriate to adopt standards that apply to all providers in the tariffs of one utility company. Serviceable standards relating to each kind of service provided by all public utilities should

be formally adopted. Standards which exist at a given point in time may be adopted by reference in the ARMs provided the source is authoritative and copies of the regulations are available.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT ESTABLISH NATURAL GAS AND ELECTRICAL STANDARDS IN THE ARMS AS REQUIRED BY STATE LAW.

Late Implementation of Fee Increases

During fiscal year 1984-85, the department changed several of the report filing fees charged to regulated utilities and motor carriers. These new fees were effective as of August 17, 1984; however, the department accepted the previously lower fees as late as April 1985. Annual filing fees increased from \$5 to \$25, a new railroad filing fee was assessed ranging from \$50 to \$150 depending on the type of filing, and utility filing fees increased from \$2/page to \$5/page. The administrative rules adopting the new rates contained no provision for delayed implementation. Late implementation of the new fees resulted in the loss of revenues to the state General Fund. Because the total fees due with each filing vary based upon the number of pages, we determined it was not feasible to estimate the amount of revenues lost but we do not believe the loss has a significant impact on the department's financial schedules. The fees should have been implemented as stated by adopted rule, or a provision for delayed implementation should have been adopted.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT ENFORCE ADOPTED ADMINISTRATIVE RULES ACCORDING TO THE EFFECTIVE DATE INCLUDED IN THE RULE.

Annual Railroad Safety Report

Section 69-14-115, MCA, requires the Public Service Commission to prepare an annual report relating to the investigation and enforcement of railroad safety laws. The statute also requires that a copy of the report be submitted to the secretary of the U.S. Department of Transportation.

The department does not prepare the annual report. Department officials send reports of violations of railroad safety standards to the Federal Railroad Administration throughout the year. This information is then compiled by the Federal Railroad Administration and sent to the U.S. Department of Transportation. Department officials stated the annual report is unnecessary because the federal government receives the information they need under the current system.

The department is not in compliance with state law by not preparing the annual report. If the department believes an annual report is unnecessary, it should seek legislation to change the requirement. However, until this requirement is changed, the department should prepare an annual report as required by law.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT:

- A. PREPARE AN ANNUAL REPORT DETAILING INVESTIGATION AND ENFORCEMENT OF RAILROAD SAFETY LAWS AS REQUIRED BY STATE LAW.
- B. IF NECESSARY, SEEK LEGISLATION TO ABOLISH THE REQUIREMENT FOR AN ANNUAL REPORT.

TELEPHONE USE

Employees reimburse the department for personal long distance calls made on state telephones. Although it is not part of a formal policy, the department uses a self-regulating repayment procedure. Each employee receives a report of long distance calls from his/her phone for the month. The employees mark those calls which are

personal rather than business related and remit payment to department accounting personnel.

State law specifies that state employees may not use state time, facilities, or equipment for private business purposes. MOM section 1-1103.01 limits state telephone use to business purposes only. In our limited scope performance audit of state telephone use, we recommended that the Department of Administration establish and clarify policies and procedures that address the use of the state telephone system for personal long distance phone calls. Therefore, we make no recommendation to the Department of Public Service Regulation in this report.

AUDITOR'S OPINION LETTER AND
AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

Except for the effect of:

1. Not properly accruing revenue in the Special Revenue Fund at fiscal year-end 1985-86;
2. Improperly decreasing prior year revenue and increasing current year revenue in the Special Revenue Fund during fiscal year 1985-86; and
3. Improperly recording expenditures in the General Fund in fiscal year 1984-85;

the reader may rely on the fairness of the amounts presented on the schedules listed in the opinion letter and on the Statewide Budgeting and Accounting System when analyzing the operations of the Department of Public Service Regulation.

Office of the Legislative Auditor

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SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

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FINANCIAL-COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Schedule of Changes in Fund Balances, Schedule of Budgeted Revenue and Transfers In - Estimated and Actual, and the Schedule of Budgeted Program Expenditures By Fund and Object of the Department of Public Service Regulation for the two fiscal years ended June 30, 1986, as shown on pages 14 through 19. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances.

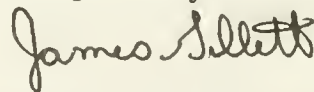
As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

During fiscal year 1985-86 the department did not properly accrue revenues in the Special Revenue Fund. This resulted in a \$20,618 understatement of revenue in the Special Revenue Fund in fiscal year 1985-86. Also during fiscal year 1985-86, the department improperly decreased prior year revenue and increased current year revenue for amounts due the department but not received at fiscal year-end 1984-85. This error resulted in a \$29,257 overstatement of revenue and prior year revenue adjustments in the Special Revenue Fund for fiscal year 1985-86.

The department improperly recorded expenditures for the Motor Carriers Safety Program grant in fiscal year 1984-85. Expenditures that were reimbursed by the federal government for this program were recorded in the General Fund. State policy requires that these reimburseable expenditures be recorded in the Special Revenue Fund. This misclassification resulted in the overstatement of General Fund expenditures by \$25,766 and the understatement of Special Revenue Fund expenditures by the same amount.

In our opinion, except for the effects of the matters discussed in paragraphs three and four, the Schedule of Changes in Fund Balances, the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual, and the Schedule of Budgeted Program Expenditures by Fund and Object present fairly the results of operations and changes in fund balance of such funds of the Department of Public Service Regulation for the two fiscal years ended June 30, 1986 in conformity with the basis of accounting described in Note 1, which except for the change in accounting policy described in Note 5, with which we concur, has been applied on a consistent basis.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett", written in a cursive style.

James Gillett, CPA
Deputy Legislative Auditor

December 17, 1986

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Internal Service Fund</u>
FUND BALANCE: July 1, 1984	\$ <u>-0-</u>	\$(23,145)	\$ <u>-0-</u>
ADDITIONS:			
<u>Fiscal Year 1984-85</u>			
Budgeted Revenue & Transfers In	1,183,470	305,431	
Prior Year Revenue Adjustments	22	123	
Prior Year Revenue		1,388	
Support From State of Montana	337,951		
<u>Fiscal Year 1985-86</u>			
Budgeted Revenue & Transfers In	1,154,482	36,005	12,724
Prior Year Revenue Adjustments	(2,953)	(52,600)	
Support From State Of Montana	443,434		
Total Additions	<u>3,116,406</u>	<u>290,347</u>	<u>12,724</u>
REDUCTIONS:			
<u>Fiscal Year 1984-85</u>			
Budgeted Expenditures & Transfers Out	1,542,893	264,819	
Prior Year Expenditure Adjustments	(10,450)	1,293	
Direct Entries to Fund Balance	(11,000)	(23,145)	
<u>Fiscal Year 1985-86</u>			
Budgeted Expenditures & Transfers Out	1,591,502	30,033	8,701
Prior Year Expenditure Adjustments	3,461	241	
Direct Entries To Fund Balance		239	
Total Reductions	<u>3,116,406</u>	<u>273,480</u>	<u>8,701</u>
FUND BALANCE: June 30, 1986	\$ <u><u>-0-</u></u>	\$ <u><u>(6,278)</u></u>	\$ <u><u>4,023</u></u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 19.

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>Licenses and Permits</u>	<u>Service Fees</u>	<u>Reimbursements</u>	<u>Federal Assistance</u>	<u>Collections & Transfers</u>	<u>Total</u>
<u>Fiscal Year 1985-86</u>						
GENERAL FUND						
Estimated Revenue	\$ 1,300,000	\$ 37,000				\$ 1,337,000
Actual Revenue	<u>1,117,889</u>	<u>36,593</u>				<u>1,154,482</u>
Collections Over (Under) Estimate	\$ <u>(182,111)</u>	\$ <u>(407)</u>				\$ <u>(182,518)</u>
SPECIAL REVENUE FUND						
Estimated Revenue			\$ 600	\$ 314,753		\$ 315,353
Actual Revenue			<u>181</u>	<u>35,824</u>		<u>36,005¹</u>
Collections Over (Under) Estimate			\$ <u>(419)</u>	\$ <u>(278,929)</u>		\$ <u>(279,348)</u>
INTERNAL SERVICE FUND						
Estimated Revenue		\$ 15,000			\$ 15,000	\$ 30,000
Actual Revenue		<u>7,724</u>			<u>5,000</u>	<u>12,724</u>
Collections Over (Under) Estimate		\$ <u>(7,276)</u>			\$ <u>(10,000)</u>	\$ <u>(17,276)</u>
<u>Fiscal Year 1984-85</u>						
GENERAL FUND						
Estimated Revenue	\$ 1,300,000	\$ 8,000	\$ 15,000			\$ 1,323,000
Actual Revenue	<u>1,146,841</u>	<u>18,141</u>	<u>18,488</u>			<u>1,183,470</u>
Collections Over (Under) Estimate	\$ <u>(153,159)</u>	\$ <u>10,141</u>	\$ <u>3,488</u>			\$ <u>(139,530)</u>
SPECIAL REVENUE FUND						
Estimated Revenue			\$ 400	\$ 468,407		\$ 468,807
Actual Revenue			<u>239</u>	<u>305,192</u>		<u>305,431¹</u>
Collections Over (Under) Estimate			\$ <u>(161)</u>	\$ <u>(163,215)</u>		\$ <u>(163,376)</u>

¹Federal Assistance decreased from \$305,431 in fiscal year 1984-85 to \$36,005 in fiscal year 1985-86 due to a transfer of the grant for the Motor Carriers Safety Program from PSR to the Department of Justice.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 19.

DEPARTMENT OF PUBLIC SERVICE REGULATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY FUND AND OBJECT
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	Fiscal Year 1985-86 Public Service Regulation Program	Fiscal Year 1984-85 Public Service Regulation Program
PERSONAL SERVICES		
Salaries	\$1,072,020	\$1,074,589
Employee Benefits	203,561	204,431
Total	<u>1,275,581</u>	<u>1,279,020</u>
OPERATING EXPENSES		
Contracted Services	69,582	158,521
Supplies and Materials	44,130	36,791
Communications	67,217	82,210
Travel	63,651	72,514
Rent	35,608	42,487
Repair and Maintenance	18,127	14,286
Other Expenses	11,916	11,038
Total	<u>310,231</u>	<u>417,847</u>
EQUIPMENT AND INTANGIBLE ASSET		
Equipment	39,424	110,845
Total	<u>39,424</u>	<u>110,845</u>
TRANSFERS		
Accounting Entity Transfers	5,000	
Total	<u>5,000</u>	
TOTAL PROGRAM EXPENDITURES	<u>\$1,630,236</u>	<u>\$1,807,712</u>
GENERAL FUND		
Budget	\$1,678,599	\$1,684,408
Actual	1,591,502	1,542,893
Unspent Budget Authority	<u>\$ 87,097</u>	<u>\$ 141,515</u>
SPECIAL REVENUE FUND		
Budget	\$ 61,628	\$ 380,839
Actual	30,033	264,819
Unspent Budget Authority	<u>\$ 31,595</u>	<u>\$ 116,020</u>
INTERNAL SERVICE FUND		
Budget	\$ 15,000 ¹	
Actual	8,701	
Unspent Budget Authority	<u>\$ 6,299</u>	

¹ See Note 5 of the notes to the financial schedules.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 through 19.

DEPARTMENT OF PUBLIC SERVICE REGULATION

NOTES TO FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies for the Department of Public Service Regulation:

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the department:

General Fund - accounts for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Internal Service Fund - to account for operations providing services to other entities on a cost reimbursement basis, and for operations where a periodic determination of revenues, expenses, and net income are needed for management control.

Basis of Accounting

The Department of Public Service Regulation uses the modified accrual basis of accounting for the General Fund and the Special Revenue Fund. In applying the modified accrual basis, revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues susceptible to accrual are recorded as receivables when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues.

Under the modified accrual basis of accounting, expenditures are recognized when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in a fiscal year subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted if a valid purchase order has been issued.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued prior to fiscal year-end.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

The accrual basis of accounting is used for the Internal Service Fund. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. The Internal Service Fund's unbilled receivables are recognized as revenue.

2. ANNUAL AND SICK LEAVE

Employees for the department accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Department of Public Service Regulation. Expenditures for termination pay currently are absorbed in the annual operating costs of the department. At June 30, 1986 the department had an estimated liability of \$83,293 for annual leave and \$22,995 for sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contribution to this plan is shown below.

	<u>Fiscal Year</u> <u>1984-85</u>	<u>Fiscal Year</u> <u>1985-86</u>
PERS	\$63,262	\$62,697

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency schedule the General Fund beginning and ending fund balance will always be zero.

5. CHANGE IN ACCOUNTING POLICY

The Utilities Division performs audits of some utility companies. The department is reimbursed for the travel costs of these audits. Prior to fiscal year 1985-86 the department accounted for these reimbursements by abating expenses rather than recording revenues. These transactions were recorded in the General Fund. The 49th Legislature gave the department authority to establish an Internal Service Fund to account for the expenses and revenues associated with these reimbursements. All audit travel expenses and reimbursements were recorded in the Internal Service Fund in fiscal year 1985-86.

AGENCY RESPONSE

PUBLIC SERVICE COMMISSION

2701 Prospect Avenue • Helena, Montana 59620
Telephone: (406) 444-6199

Clyde Jarvis, Chairman
Howard Ellis, Vice Chairman
John Driscoll
Tom Monahan
Danny Oberg

RECEIVED

MAY 13 1987

**MONTANA LEGISLATIVE
AUDITOR**

May 12, 1987

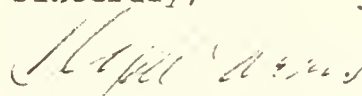
Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat,

Enclosed please find PSC's response to your final report on the audit of the Department of Public Service Regulation. Also with this response, we are returning the 2 copies of the report per your request.

We look forward to the meeting with you and the Legislative Audit Committee.

Sincerely,



Clyde Jarvis,
Commissioner

enclosures

RESPONSE TO LEGISLATIVE
FINANCIAL COMPLIANCE AUDIT
June 30, 1986

1. TRAINING

RECOMMENDATION #1: THE DEPARTMENT OBTAIN ADDITIONAL
TRAINING FOR ACCOUNTING PERSONNEL
REGARDING STATE ACCOUNTING POLICY
AND PROCEDURES

RESPONSE:

Concur.

The Department will obtain training for accounting personnel as soon as the needed training is offered by the Department of Administration, Professional Development Center.

2. REVENUE RECOGNITION

RECOMMENDATION #2: THE DEPARTMENT ACCRUE REVENUES
ACCORDING TO STATE ACCOUNTING POLICY

RESPONSE:

Concur.

Correcting adjustment have been made for fiscal year 1985-1986.

3. IMPROPER FUND CLASSIFICATION

RECOMMENDATION #3: THE DEPARTMENT PROPERLY ACCOUNT FOR
GRANT EXPENDITURES IN THE SPECIAL
REVENUE FUND.

RESPONSE:

Concur.

The error was corrected during fiscal year 1986-1987

4. INVALID ACCRUAL

RECOMMENDATION #4 THE DEPARTMENT ACCRUE ONLY VALID
OBLIGATIONS IN COMPLIANCE WITH STATE
POLICY.

RESPONSE:

Concur.

5. CODING OF EXPENDITURES

RECOMMENDATION #5

THE DEPARTMENT PROPERLY RECORD EQUIPMENT PURCHASES IN ITS ACCOUNTING RECORDS IN ACCORDANCE WITH STATE POLICY.

RESPONSE:

Concur.

6. ATTORNEY GENERAL APPROVAL OF LEGAL COUNSEL

RECOMMENDATION #6

THE DEPARTMENT ADOPT A POLICY TO ENSURE THAT ALL LEGAL COUNSEL REPRESENTING THE DEPARTMENT ARE APPROVED BY THE ATTORNEY GENERAL AS REQUIRED BY LAW.

RESPONSE:

Concur.

This situation arose from a misunderstanding that has been corrected and a formal policy will be adopted by June 30, 1987.

7. GAS AND ELECTRICAL STANDARDS

RECOMMENDATION #7:

THE DEPARTMENT ESTABLISH NATURAL GAS AND ELECTRICAL STANDARDS IN THE ARMS AS REQUIRED BY STATE LAW.

RESPONSE:

Concur.

The Commission believes that certain standards for utility service must be tied to unique operation conditions of individual utilities. These requirements are incorporated in the ARMS in 38.5.1001. To the extent that standards may apply to all electric or natural gas, the Commission concurs in the recommendation to adopt rules pursuant to §69-3-108(1), MCA. A rulemaking proceeding will be initiated before the end of 1987.

8. LATE IMPLEMENTATION OF FEE INCREASES

RECOMMENDATION #8:

THE DEPARTMENT ENFORCE ADOPTED ADMINISTRATIVE RULES ACCORDING TO THE EFFECTIVE DATE INCLUDED IN THE RULE

RESPONSE:

Concur.

9. ANNUAL RAILROAD SAFETY REPORT

- RECOMMENDATION #9 A. THE DEPARTMENT PREPARE AN ANNUAL REPORT DETAILING INVESTIGATION AND ENFORCEMENT OF RAILROAD SAFETY LAWS AS REQUIRED BY STATE LAW.
- B. IF NECESSARY SEEK LEGISLATION TO ABOLISH THE REQUIREMENT FOR AN ANNUAL REPORT.

RESPONSE:

Concur.

The Department will prepare an annual report for calendar year 1987 & 1988 as required by law and review the statute to determine if the requirement for an annual report should be abolished.

